

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7576

Petition of Vermont Public Power Supply Authority,    )  
Pursuant to 30 V.S.A. § 108(a), for Authority to Issue    )  
Long-term Debt for the Purchase of Membership        )  
Units in Vermont Transco, LLC for the Benefit of        )  
VPPSA Members    )

Order entered: 12/18/2009

**I. INTRODUCTION**

On October 13, 2009, the Vermont Public Power Supply Authority ("VPPSA") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) for long-term debt financing in the amount of \$8.1 million for the purchase of \$4.5 million of Class A and Class B membership units ("Membership Units" or "Units") in Vermont Transco, LLC ("Transco") on behalf of the VPPSA members, and to potentially refinance approximately \$3.7 million of existing variable-rate debt related to the purchase of Transco Membership Units in 2008. As noted below, VPPSA subsequently withdrew the refinancing request of \$3.7 million, leaving a total loan request of \$4.5 million (the "Loan"). The Loan is to be provided by Merchants Bank ("Merchants Bank"). The Petition was supported by the prefiled testimony of Crystal Currier, Controller for VPPSA, and by accompanying exhibits.

On November 30, 2009, the Vermont Department of Public Service ("DPS") submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

On November 30, 2009, the DPS filed a letter with attached Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On November 24, 2009, VPPSA filed a letter informing the Board that VPPSA is withdrawing the refinancing portion of its request in the amount of \$3.7 million, thus amending the Petition to reduce the total financing request to \$4.5 million. VPPSA's letter was supported by the supplemental prefiled testimony of Crystal Carrier, Controller for VPPSA, and by an accompanying exhibit.

I have reviewed the Petition, VPPSA's letter of November 24, and the supporting documents. I conclude that approval of VPPSA's amended Petition pursuant to 30 V.S.A. §108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the exhibits presented in this docket, and the DPS's letters of November 30, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 108.

## **II. FINDINGS**

1. VPPSA has thirteen members who are all Vermont distribution utilities.<sup>1</sup> Petition at 1.

2. Pursuant to the Board's Order in Docket No. 7310, Transco is now issuing the 2009 Membership Units.<sup>2</sup> Transco also plans to offer and issue to the Vermont distribution utilities an additional aggregate of up to \$35 million of Transco's Class A and Class B Units recently approved by the Board on November 16, 2009.<sup>3</sup> VPPSA requests approval to obtain long-term financing to purchase the Membership Units allocated to its members under each offering. VPPSA proposes to acquire \$3.1 million of the so-called "make up" and/or "load-ratio share" equity and approximately \$1.4 million of the unsubscribed equity, if made available by Transco, for a total purchase of \$4.5 million. Carrier pf. at 2-3.

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1. Village of Barton Electric Department; Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Hyde Park Electric Department; Village of Jacksonville Electric Company; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department; Village of Orleans Electric Department; Town of Readsboro Electric Light Department; and Swanton Village, Inc. Electric Department.

2. See Docket No. 7310, Order of 10/15/08.

3. See Docket No. 7567, Order of 11/16/09.

3. VPPSA intends to finance the purchase of the Units with financing provided by Merchants Bank in the amount of \$4.5 million for a term of seven years. Merchants Bank is offering a variable interest rate calculated at the Prime Rate (currently 3.25%) plus 1.0% with a floor of 4.5%, with a one-time option to convert the Loan to a fixed rate at any time during the term of the note. The fixed-rate structure, if utilized by VPPSA, will be calculated using the Federal Home Loan Bank of Boston Amortizing Advance Rate ("FHLB Rate") plus 300 basis points. *Currier* supp. pf. at 1; *exh. VPPSA-Currier-2* (revised).

4. VPPSA originally proposed total financing in the amount of \$8.1 million which included an option to refinance existing short-term debt in the approximate amount of \$3.7 million. VPPSA incurred the existing short-term debt in 2008 in order to purchase the 2007 and 2008 Membership Units as part of a total financing request with Merchants Bank in the amount of \$11.8 million, approved by the Board in Docket No. 7489.<sup>4</sup> That financing was structured in two parts, with \$8.0 million locked in at a fixed rate of interest and \$3.8 million with a variable interest rate. VPPSA became concerned that interest rates may increase in the near future and thus included the potential refinancing of the existing \$3.7 million in variable-rate debt in its original Petition to take advantage of proposed fixed-rate pricing from Merchants Bank. The original loan terms offered by Merchants Bank consisted of a seven-year note in the amount of \$8.1 million at a fixed rate of interest calculated using the FHLB Rate plus 300 basis points resulting in a fixed rate of 6.87%. However, with the submittal of a new Term Sheet from Merchants Bank dated November 19, 2009, VPPSA reconsidered its earlier decision and selected a low variable rate with a fixed-rate option, as described in Finding No. 3 above. At a point in time when VPPSA feels the benefit of the variable rate is no longer advantageous, VPPSA will invoke its option for the fixed rate. Consequently, VPPSA has chosen not to refinance the existing \$3.7 million in variable-rate debt and has withdrawn that portion of its original request from the Petition. *Currier* pf. at 3; *Currier* supp. pf. at 1-2; *exh. VPPSA-Currier-2*.

5. VPPSA will acquire and own the Membership Units for the benefit of its members and apply the positive cash flow resulting from Transco's payment of quarterly distributions first to debt service and then as an adjustment to the members' monthly invoices. As a result, VPPSA's

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4. *See* Docket No. 7489, Order of 12/26/08.

members and their ratepayers will receive all the benefits of Transco equity ownership and minimize the transaction costs of the purchase by acting jointly through VPPSA. Currier pf. at 4.

### **III. DISCUSSION & CONCLUSION**

Based upon the foregoing and the evidence in the record, I find that VPPSA's amended Petition as described above will be consistent with the general good of the State. The proposed financing provides financial benefits to VPPSA's members and their ratepayers through the ownership of the Transco Membership Units and the distribution income the Units provide. I therefore recommend that the Board approve the amended Petition and authorize the requested long-term financing of the purchase of Transco Membership Units on behalf of VPPSA's members in an amount not to exceed \$4.5 million, according to the financing terms as described above.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 18<sup>th</sup> day of December, 2009.

s/Jay E. Dudley  
Jay E. Dudley  
Hearing Officer

**V. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term debt in an amount not to exceed \$4.5 million to finance the purchase of membership units in Vermont Transco, LLC ("Transco") on behalf of all of the municipal members, as set forth in the Vermont Public Power Supply Authority's ("VPPSA") amended Petition in this docket, and as described in the Findings, is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to obtain financing from the Merchants Bank in an amount not to exceed \$4.5 million for a term of seven years, according to terms consistent with the Findings above.
4. This Order does not constitute approval of VPPSA's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the amended Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or VPPSA's resulting capital structure.
5. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 18<sup>th</sup> day of December, 2009.

<u>s/James Volz</u>	)	
	)	PUBLIC SERVICE
	)	
<u>s/David C. Coen</u>	)	BOARD
	)	
	)	OF VERMONT
<u>s/John D. Burke</u>	)	

OFFICE OF THE CLERK

FILED: December 18, 2009

ATTEST: s/Susan M. Hudson  
CLERK OF THE BOARD

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*